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February 23, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Honorable W.J. (Billy) Tauzin
U.S. House of Representatives
2330 Rayburn House Office Bldg.
Washington, D.C. 20515-1803

Dear Congressman Tauzin:

Thank you for your letter of November 19, 1993, to then-Chairman James H. Quello, regarding the Commission's Billed Party Preference (BPP) proposal in CC Docket No. 92-77. In your letter you express concern about the cost to consumers of implementing BPP.

The Notice of Proposed Rulemaking on BPP, released in May 1992, tentatively concluded that BPP would simplify operator service calling by enabling callers to reach the billed party's preferred carrier automatically, without having to use a carrier access code. The Commission also noted that BPP would likely force carriers to focus their competitive efforts on providing lower prices and better service to consumers. Finally, the Commission suggested that BPP could eliminate AT&T's advantages in the operator services marketplace and enable other carriers to compete on more equal terms.

At the same time, the Notice expressly recognized the concerns you raise in your letter, as well as the role of Telephone Operator Consumer Services Improvement Act of 1990 (TOCSIA) in reducing abuses in the marketplace. We asked for information and comment about these matters, including the cost of BPP and its impact on operator services and payphone competition.

Commission staff is currently evaluating all of the comments filed in this proceeding. I am directing the staff to place your letter in the official record for appropriate review. I am confident that your input will be carefully considered in our deliberations. We will go forward with this proposal only if we conclude that its benefits to consumers outweigh its costs.

Sincerely,

Reed E. Hundt
Chairman

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Congress of the United States

Washington, DC 20515

November 19, 1993

The Honorable James H. Quello
Federal Communications Commission
Room 814
1919 M Street, NW
Washington, DC 20554

Dear Mr. Chairman:

The purpose of this letter is to advise you of our fundamental concerns with the FCC's Billed Party Preference ("BPP") proposal in CC Docket No. 92-77 and to request that those concerns be fully investigated before the FCC acts on the proposal.

At first blush, BPP -- which would require all operator-assisted calls (collect, third party and calling card calls) to be routed to the company selected by the party being billed - appears to be a proposal that will benefit the consumer. Upon closer scrutiny, however, the proposal suffers from a number of flaws.

Our first and foremost concern is the cost to consumers. In response to FCC inquiries, the telephone companies have estimated that they will have to collectively spend almost \$1.5 billion to implement the BPP system. Actual costs may be higher, since the telephone company estimates are very general and subject to numerous qualifications.

The local telephone companies are understandably concerned about recovering that considerable cost if BPP is mandated by the FCC. Their concern stems from a recognition that it may be difficult to recover all of the cost from customers actually using BPP -- which will probably be dominated by business people on travel -- and that a substantial portion of the cost may have to be recovered from all customers, including those who never have occasion to use BPP. Some telephone companies therefore indicate that they cannot support BPP unless they can spread the costs among all customers -- an approach that will require State PUCs to inaugurate their own separate proceedings to implement BPP. Other telephone companies expressly oppose BPP because of the cost involved. Given the other demands on people's pocketbooks -- including but not limited to taxes and health care -- this is not a time to be saddling the American people with additional financial burdens, especially if there is no compensating benefit.

Regardless of who pays for implementations of BPP, it is not clear that the benefits to those who use the system can justify the cost. Congress enacted the Telephone Operator Consumer Services Improvement Act of 1990 ("TOCSIA") in part to ensure that consumers could access their chosen long distance carrier. The FCC has adopted rules to implement TOCSIA, payphone providers and premises owner (like hotels, universities and hospitals) have spent millions of dollars in hardware and software to accommodate TOCSIA's requirements, and, as the FCC reported to Congress, the consumer now appears to be enjoying the benefits of that new legislation. We question whether another \$1.5 billion -- or whatever the ultimate cost of BPP -- is needed to further facilitate a customer's access to a chosen long distance carrier.

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The Honorable James H. Quello
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The questions about the value of BPP are underscored by the absence of any experience with its use in the marketplace and the conflicting views as to its value. There is thus a further question whether the theories of BPP's greater efficiencies will be matched by the actual performance of BPP after it is implemented.


Finally, there is an overriding question whether implementation of BPP will foster or impede competition in the provision of operator and payphone services and equipment. One of TOCSIA's principle purposes was to promote competition in the provision of payphone, operator and long distance services. It is not clear whether BPP will advance or undermine that goal. For example, implementation of BPP will limit the opportunities for new equipment manufacturers and operator services providers to enter into arrangements with premises owners. BPP will similarly deprive independent payphone providers of compensation for the use of their facilities for long distance calls and thus impede their ability to provide competitive payphone services.

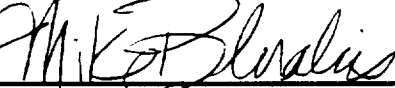
We look forward to working with you and other members of the commission on this important issue. In that cooperative spirit, we hope and trust that the FCC will resolve the foregoing issues before BPP is acted on by the Commission.

Sincerely,


J. Alex McMillan

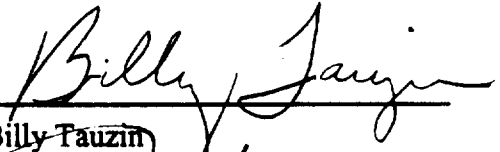

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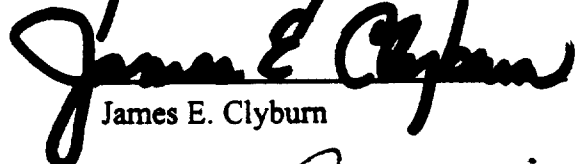

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cc: The Honorable Andrew C. Barrett
The Honorable Ervin S. Duggan
The Honorable Reed Hundt